

## **Iowa Joint Utilities Management Program (IJUMP)**

### **Summary**

IJUMP was not “an investment that didn’t pan out,” as some have characterized it. In fact, it was one of the most successful ventures IASB has been involved in both for establishing a competitive environment for schools where none existed originally, providing good services to schools over those years, providing consolidated billing and payments to increase efficiencies in schools, and financially for the IASB enterprise as the program brought in approximately \$120,000 to \$220,000 annually over those 10 years to fund other IASB programs and services. IASB successfully made more in revenue than it spent on the program, and continues to get small sponsorship fees that are expected to total about \$120,000 for the next eight years.

The sale to Seminole Energy Services ensured a continued competitive environment in Iowa to keep costs competitive for schools, ensured the schools would continue to receive at least as good of a deal under SES and they would have under IJUMP, and eliminated all business risk to IASB. It is also a good example of a time where IASB no longer was needed for schools to get what they needed, so IASB exited the marketplace.

### **IJUMP Origins**

IASB originally started the IJUMP program in 1997 because there was no competitive option for schools in the marketplace. Schools had to purchase their natural gas to heat their buildings from their local utility (MidAmerican, Alliant, Aquila, etc.) at the market price and had no protections against price spikes, which often occurred if it was an unusually cold winter. The Iowa Utilities Board (IUB) allowed IASB/IJUMP to operate as a pilot project to sell natural gas to schools and other nonprofit or government institutions. The program was reviewed and extended multiple times by the IUB and operated that way for about 10 years. It helped schools and was successful for IASB, which received a sponsorship fee.

The IJUMP program was originally established in 1997 with a \$350,000 revolving loan fund from the Iowa Department of Natural Resources “for public schools in Iowa to provide, but not be limited to, temporary financing for energy studies and associated costs related to direct energy purchase infrastructure improvements.” The contract was with IASB originally. IJUMP, Inc. was established in May 2001 and had its own governing board. The loan agreement was then transferred from IASB to IJUMP effective July 1, 2001. The \$350,000 loan was fully repaid to the DNR during the 2007-08 fiscal year.

### **Underbilling Issue**

During the 2004-05 fiscal year, IJUMP had an agreement with WPS Energy Services (now Integrys Energy) out of Wisconsin. They were responsible for nominating the gas to the appropriate delivery points throughout Iowa, pricing the commodity taking into account the futures purchases, and doing the actual billing to the customers. As we ended the 2004-05 fiscal year, we had a loss but knew we shouldn’t have a loss unless the commodity was priced inaccurately. WPS and IASB staff spent a good deal of time analyzing what occurred to lead to our loss. It was determined individually and collectively that WPS priced the gas lower than IJUMP’s costs. Essentially, IJUMP didn’t charge the schools for all the gas they used. The net loss on the underbilling was approximately \$725,900.

IJUMP brought the pricing and billing services in-house effective Dec 2006 (through LGS) as a result of these issues and wanting to get a better handle on the pricing. The board decided to work to recover fees

through marketing up future gas and bringing services in-house to better manage the pricing issues. The IJUMP customer base was very consistent from year to year so it seemed to make sense to recover it through future billings rather than sending out an assessment or spending money on litigation with WPS.

### **Sale of IJUMP**

Effective April 2008, the IUB made a significant change to the tariff. The IUB ordered that the tariff be extended permanently to all non-residential consumers and not be limited to just schools. Additionally, they ruled that the approved providers should be expanded to include any qualified Certified Natural Gas Providers (CNGPs) to sell gas to any non-residential consumer. So, essentially, any organization that was or became a CNGP could start selling gas to hospitals, churches, banks, office buildings, etc. This left IJUMP in a dilemma. The current program served about 2/3 of the potential marketplace of schools and nonprofits in Iowa. Once the tariff changed, the marketplace expanded significantly. The expanded marketplace would most certainly increase competition in the state, which would require additional marketing resources, lines of credit, etc. by IJUMP, Inc. IJUMP had to either expand significantly, or create a plan for exiting the marketplace. The IJUMP board had multiple conversations about this, including how the entity fit into IASB's work with schools, and determined it best to start shopping for a successful sale.

IJUMP hired Louie Ervin, of Latham & Associated, to search for a suitable buyer for the program. Seminole Energy Services was presented to IJUMP and the negotiations began.

The elements identified for a successful deal included:

- Must Receive "*What It's Worth*"
- Treatment of Schools
  - How - at least as good as they are now.
  - How long – at least through the longest contract term.
  - After that – Make sure there's adequate competition.
- IJUMP Inc.
  - Need to at least pay all obligations (approximately \$1.0 million).
  - Eliminate all future risk.
- IASB Enterprise (IASB/LGS/IJUMP Inc.)
  - Retain revenue stream for a reasonable amount of time.
  - Eliminate substantially all business risk beyond the revenue stream.

A presentation was made to the IJUMP board on September 19, 2008 regarding the sale to Seminole Energy Services.

The purchase agreement approved was for the following:

- \$1,070,000 in cash
- 5 cents per MMBTU to IASB for sponsorship, paid for at least 8 years (approximately \$120,000 annually depending on usage and number of customers).
- SES is prohibited from raising the mark-up (profit) earned on the commodity for at least four years (schools protected from increase profits to SES)

The Net Present Value as presented on 9/19/2008:

- Prior to brokerage payment - \$1.8 million
- Net of brokerage payment - \$1.7 million
- Provides sufficient IASB cash flow for long enough to re-invest, create new services, or reduce costs

After the sale of substantially all of its assets, IJUMP filed Articles of Dissolution during June 2009. When the final accounting for the IJUMP entity was done upon dissolution of the entity in June 2009, IJUMP was short about \$45,000. According to IJUMP's bylaws, all of the assets or liability of the IJUMP entity are transferred to IASB upon dissolution. Therefore, IASB cleared up the outstanding items as a contribution to IJUMP effective 6/30/2009. This is eliminated in the consolidated financial reports at year end.

However, during the fiscal year ended 6/30/2009, the IJUMP program generated \$238,017 to IASB/LGS. LGS received \$150,000 for the billing software and \$56,316 for administrative fees. IASB received the remainder for sponsorship fees, interest on a cash flow loan, and legal fees.

Today, IASB continues to receive a sponsorship fee (approximately \$120,000 per year) for the program, as outlined in the sale. In addition, numerous schools continue to participate and have expressed appreciation for the program.

### **IJUMP Upon Dissolution**

IASB forgiveness	\$ (42,390.00)
LGS software license	150,000.00

Net effect	<u><u>\$ 107,610.00</u></u>
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Other transactions during 08-09 resulting in income to IASB & LGS

IASB sponsorship	\$ 55,000.00
IASB interest income on loan	4,785.00
IASB allocated legal	14,306.00
LGS administrative services	56,316.00

Other income to IASB & LGS	<u><u>\$ 130,407.00</u></u>
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Total monies to IASB & LGS from

IJUMP 2008-09	<u><u>\$ 238,017.00</u></u>
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Loan balance 6/30/2008	\$ 1,236,562.10
Additions	\$ 170,000.00
Payments	<u><u>\$(1,406,562.10)</u></u>
Loan balance 6/30/2009	<u><u>-</u></u>

\*First loan to IJUMP by IASB was in November 2001.

**IJUMP Change in Net Assets**

	<u>6/30/2009</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>6/30/2004</u>
Increase (Decrease)	767,234	80,018	(32,338)	(475,742)	(458,523)	27,092
Net Asset Balance	-	(767,234)	(847,252)	(814,914)	(339,172)	119,351

6/30/2005: first year Brooks Lodden, P.C. audited IJUMP

Losses were mostly created by the pricing error that occurred under WPS Energy Services.  
The sponsorships paid to IASB could have also contributed to the loss amount.

**Sponsorships paid from SES to IASB**

<u>Payment Date</u>	<u>Amount</u>	<u>Description</u>	<u>Volume</u>
7/7/2010 \$	58,194.91	January 2	1,163,898
3/29/2010 \$	29,758.18	October C	595,164
3/26/2010 \$	4,029.80	July 09-S	80,596
9/17/2009 \$	16,395.94	IASB Ap	327,919
7/14/2009 \$	63,861.72	IASB Jan 1	277,234
3/27/2009 \$	36,969.18	IASB Jul	739,384
<b>Total</b>	<b>\$ 209,209.73</b>		

\*Sponsorship amount and volume provided by Sean Gibson, LGS/IASB

**Sponsorships paid from SES to IASB**

<b>Payment Date</b>	<b>Amount</b>	<b>Description</b>	<b>Volume</b>
3/29/2010	\$ 29,758.18	October 09-December 09 Sponsorship	595,164.00
3/26/2010	\$ 4,029.80	July 09-September 09 Sponsorship	80,596.00
9/17/2009	\$ 16,395.94	IASB April-June 09 Sponsorship	327,919.00
7/14/2009	\$ 63,861.72	IASB Jan-March 09 Sponsorship	1,277,234.00
3/27/2009	\$ 36,969.18	IASB July-Dec 08 Sponsorship	739,384.00
<b>Total</b>	<b>\$ 151,014.82</b>		

Volume for July 09- December 09  
675,760.00

Estimate based on prior year (percentage volume of July-Dec09 divided by July-Dec 08)  
for volume comparison

\$ 58,366.42 January - March 2010 Sponsorship  
to be received late May 2010

\*Sponsorship amount and volume provided by Sean Gibson, LGS/IASB

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**Various Issues Related to the  
Iowa Joint Utilities Management Program (IJUMP)  
Notes by Jen Albers – April 4, 2010**

There are several issues for the board to be aware of regarding IJUMP:

- Underbilling
- Derivative losses.
- Sale of Assets to Seminole Energy Services
- Franchise Fees

Originally, when Maxine talked to me about IJUMP issues, I thought she was referring to the underbilling schools for their gas issue which took place several years ago before the program was brought in house. In looking at the issue deeper, I believe the real issue she was questioning was related to the derivative losses. Both are issues the board should have an understanding around, in addition to the sale of assets and the franchise fees. I hope this helps the board understand that various IJUMP issues that could come up.

### **Background**

Sometime during August 2009, Maxine Kilcrease and Kevin Schick met with Paul Bobek of Iowa City. I believe Paul contacted Maxine after she began her employment in July and asked for the meeting, but I'm not certain of how that meeting came to occur. Kevin talked to me about the meeting afterwards and said to me, "That Paul Bobek sure hates Ron Rice and Jon Muller." Kevin told me that Paul had made a lot of accusations against the two of them. I told Kevin before the meeting and again afterwards about Paul's history with IASB and his affiliation with ISJIT's competitor.

One of the items that apparently came up during the meeting between the three of them was related to the IJUMP program. I don't recall exactly how the question or accusation was worded, if I was even ever told, but I assumed then and again recently that the issues Maxine referenced with regard to IJUMP were related to underbilling schools for their natural gas used. I gave Kevin a brief history at that time regarding that underbilling issue, but we certainly didn't get into it in-depth. Maxine never asked me directly anything about IJUMP that I recall.

Either Maxine or Kevin (or both) apparently asked Joe Desmond of Brooks Lodden about the issue at some point after the meeting with Paul Bobek. Joe was well aware of the underbilling issue as it was a significant source of discussion during the IJUMP audit a few years ago and each year since to ensure it didn't happen again. Joe asked me to email him the letter from WPS Energy admitting that they made the pricing error, which I emailed to him on 9/1/2009. Joe and I had a discussion at that time that Maxine was talking about this issue without complete and accurate information.

## **Underbilling Issue**

During the 2004-05 fiscal year, IJUMP had an agreement with WPS Energy Services (now Integrys Energy) out of Wisconsin. They were responsible for nominating the gas to the appropriate delivery points throughout Iowa, pricing the commodity taking into account the futures purchases, and doing the actual billing to the customers. As we ended the 2004-05 fiscal year, we had a loss but knew we shouldn't have a loss unless the commodity was priced inaccurately. WPS and IASB staff spent a good deal of time analyzing what occurred to lead to our loss. It was determined individually and collectively that WPS priced the gas lower than IJUMP's costs. Essentially, IJUMP didn't charge the schools for all the gas they used. The reasons for the underbilling are outlined in a letter from Steve Willins of WPS Energy to Jon Muller dated March 8, 2006, which I've attached. The net loss on the underbilling was approximately \$725,900. (See attachment 1)

Interestingly, Jon and the IJUMP staff separately investigated the issue, and discovered the letter did not reflect the true nature of the problem. Steve said it related to how WPS handled "cash outs", or the payment each month to/from the utilities to balance out under/over nominations. When there were over-nominations, IJUMP received a cash out payment, which WPS deducted from the price. When nominations were under, IJUMP made a payment to the utility for the additional gas purchased. The problem centered on how WPS treated those cash outs. Each month, WPS would calculate the total cost of gas and divide by units sold. That was the price per unit. However, they would take the cash out and reflect it in those amounts. For the winter in question, there were significant over nominations, meaning the utilities had delivered WPS too much gas. WPS would take those large cash out payments from the utilities, and deduct them total cost of gas in the subsequent month. That turned out to be an error in methodology causing IJUMP to lose the money. The other issues discussed in Steve's letter were additional issues, but weren't as significant as the cash out issue.

IJUMP brought the pricing and billing services in-house effective Dec 2006 (through LGS) as a result of these issues and wanting to get a better handle on the pricing. Jon Muller handled the pricing going forward, and Traci Giles and I handled the billing to the schools on the program using the commodity prices established by Jon and other costs from the utilities.

When this underbilling issue occurred, you can imagine it was a significant issue. Attached are the board minutes from 12/19/2006 (see attachment 2) where there was discussion referenced about this issue and where the IJUMP board approved all of the changes in agreements to bring things in-house having WPS remain doing online nomination services. I did not find a direct reference to this issue in the other board meeting minutes, but I recall and can assure you there was significant discussion at multiple meetings regarding this issue. I am also certain the IJUMP board had discussion regarding whether they should attempt to collect those amounts through litigation with WPS or just work to recover fees through marking up the gas a bit in the future. We also discussed sending out assessment statements but quickly ruled out that option due to the ISEBA issues going on at the same time, which was also due to a vendor pricing error. The board decided to work to recover fees through marketing up future gas and bringing services in-house to better manage the pricing issues. I don't see those discussions reflected in the minutes,

but I'm certain they took place in detail with the IJUMP board and perhaps also with the IASB board as well.

Some of the underbilling was recovered by incorporating an "add" into the future gas prices for IJUMP customers after the program was brought in-house. The IJUMP customer base was very consistent from year to year so it seemed to make sense to recover it through future billings rather than sending out an assessment or spending a bunch of money on litigation. I don't recall the exact amount that had been made up through the add, as the pricing was primarily an issue Jon Muller handled. I do not believe it was all recovered before we started shopping and ultimately selling the IJUMP program contracts. Jon would have to speak to the actual numbers which I'm sure he would do if asked.

### **Derivative Losses**

What I now believe Paul Bobek, Maxine and Kevin actually were referring to was a note in the FY08 consolidated audit report. The note is pasted below and is found on page 20 of the report FY08 consolidated audit report.

#### **IJUMP:**

IJUMP entered into commodity derivatives to manage its exposure to natural gas price fluctuations caused by commodity-price volatility. As of June 30, 2008, the derivative instruments that had been settled resulted in a net realized (loss) of \$1,003,275 in the statement of activities. At June 30, 2008, IJUMP did not have any outstanding commitments to purchase commodity derivatives.

IJUMP did enter into commodity derivatives to manage exposure to the price fluctuations for the gas commodity. IJUMP used a layering approach to lock in a percentage of their anticipated gas volumes for the winter months. The amounts not locked in floated with the current price on the market. IJUMP had an advisory committee that advised staff who advised the IJUMP board about how much volatility they felt comfortable tolerating. The advisory committee typically indicated that price certainty was more important than IJUMP being the lowest cost on the market. Schools wanted to stay within their budgets, rather than always getting the best deal, if they had to choose between the two. If gas prices skyrocketed, they wanted to be protected as much as possible. IJUMP had a strategy of layering (or hedging) in between 50 and 80 percent of their expected usage over time. All of this had to be taken into considering when actually pricing the commodity prior to billing. Again, this was WPS's responsibility prior to Dec 2006, then Jon's responsibility going forward until the sale of assets. Jon would go through with the IJUMP board the volumes and price points locked in at each meeting. Joe Desmond and I went through Jon's pricing spreadsheets on multiple occasions regarding the methodology used to assure we had all costs included and review the add amounts, unlike what WPS was doing, but Jon can best explain that process. He provided charts to the board and the advisory committee that compared IJUMP's hedging experience to various benchmarks.

In any case, the gains on the derivatives actually meant that schools were paying more for gas because it meant the market price of gas actually went up. The losses on the derivatives actually

meant the schools were paying less for gas because it meant the market price of gas actually went down. Whether the derivatives were a net gain or loss was irrelevant for IJUMP/IASB because the gain or loss was taken into account in pricing the gas for the schools.

I think the note to the financial statement showing a loss on the derivative lead Bobek as well as Maxine to assume that we were engaged in some risky financial practice that didn't pan out. I keep hearing references to "investments that didn't pan out" and I'm assuming this is one that is being referred to, but that is not the case here. IJUMP's gain or losses on derivatives had absolutely no affect on IJUMP's income or loss for the fiscal year, but the gain or loss is required to be booked as a gain or loss on the financials and disclosed in a note to the audited financial reports. These derivatives were not investments. They were risk management tools.

### **Sale of Assets to Seminole Energy Services**

IASB originally started the IJUMP program in 1997 because there was no competitive option for schools in the marketplace. Schools had to purchase their natural gas to heat their buildings from their local utility (MidAmerican, Alliant, Aquila, etc.) at the market price and had no protections against price spikes, which often occurred if it was an unusually cold winter. The Iowa Utilities Board (IUB) allowed IASB/IJUMP to operate as a pilot project to sell natural gas to schools and other nonprofit or government institutions. The program was reviewed and extended multiple times by the IUB and operating that way for about 10 years. Effective April 2008, the IUB made a significant change to the tariff. The IUB ordered that the tariff be extended permanently to all non-residential consumers and not be limited to just schools. Additionally, they ruled that the approved providers should be expanded to include any qualified Certified Natural Gas Providers (CNGPs) to sell gas to any non-residential consumer. So, essentially, now any organization that was or became a CNGP could start selling gas to hospitals, churches, banks, office buildings, etc. This left IJUMP in a dilemma. The current program served about 2/3 of the potential marketplace of schools and nonprofits in Iowa. Once the tariff changed, the market place expanded significantly. The expanded marketplace would most certainly increase competition in the state, which would require additional marketing resources, lines of credit, etc. by IJUMP, Inc. IJUMP had to either expand significantly, or create a plan for exiting the marketplace. The IJUMP board had multiple conversations about this and determined it best to start shopping for a successful sale.

IJUMP hired Louie Ervin, of Latham & Associated, to search for a suitable buyer for the program. Seminole Energy Services was presented to IJUMP and the negotiations began.

The elements identified for a successful deal included:

- Must Receive "*What It's Worth*"
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  - How - at least as good as they are now.
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- IJUMP Inc.
  - Need to at least pay all obligations (approximately \$1.0 million).

- Eliminate all future risk.
- IASB Enterprise (IASB/LGS/IJUMP Inc.)
  - Retain revenue stream for a reasonable amount of time.
  - Eliminate substantially all business risk beyond the revenue stream.

Attached are the agenda, minutes, and the presentation made by Jon to the IJUMP board on 9/19/2008 (**see attachment 3**) regarding the sale of substantially all of IJUMP's assets to Seminole Energy Services. The PSA approved was for the following:

- \$1,070,000 in cash
- 5 cents per MMBTU to IASB for sponsorship, paid for at least 8 years (approximately \$120,000 annually depending on usage and number of customers).
- SES is prohibited from raising the mark-up (profit) earned on the commodity for at least four years (schools protected from increase profits to SES)

The Net Present Value as presented on 9/19/2008:

- Prior to brokerage payment - \$1.8 million
- Net of brokerage payment - \$1.7 million
- Provides sufficient IASB cash flow for long enough to re-invest, create new services, or reduce costs

At the time of the sale, IJUMP had cash flow agreements in place with IASB as well as with Bankers Trust. IJUMP accessed needed funds for cash flow first through IASB (and paid IASB interest on outstanding loan balances), then secondarily from Bankers Trust Company. At the time of the sale, IJUMP had outstanding cash flow borrowings from IASB and nothing outstanding with Bankers Trust. Those loan amounts were repaid to IASB in full after closing with Seminole Energy Services. IASB deposited those funds into their savings account, the IASB Stabilization Reserve Account.

After the sale of substantially all of its assets, IJUMP filed Articles of Dissolution during June 2009. When the final accounting for the IJUMP entity was done upon dissolution of the entity in June 2009, IJUMP was short \$42,390. According to IJUMP's bylaws, all of the assets or liability of the IJUMP entity are transferred to IASB upon dissolution. Therefore, IASB cleared up the outstanding items as a contribution to IJUMP effective 6/30/2009. This is eliminated in the consolidated financial reports at year end.

IJUMP paid Latham & Associates \$100,000 at the time of the sale as their brokerage fee. The arrangement with Latham & Associates also requires IASB to pay them 10 percent of any future commission received by IASB for a period of 3 years.

#### **Franchise Fees (see attachment 4)**

IJUMP was charged for franchise fees as part of certain cashouts from MidAmerican Energy. These were multiple issues with the franchise fees billings over the years, but the current issue relates to fees that were not passed along to the individual schools, rather were factored into the overall price by WPS Energy when they handled the billing. There were about 9 customers subject to franchise fees, Des Moines CSD being one of them. IJUMP staff began noticing this franchise fee issue once the program was brought in-house. Staff went through old cash out billings and identified \$174,145.39 in franchise fees between 2001 and 2007, which were not billed out to schools, and booked these as unbilled receivables in the financial statements for the fiscal year ended June 30, 2007. During the 2007-08 fiscal years, IJUMP billed the two largest customers, Des Moines CSD and Sioux City CSD for their 2007-08 franchise fees in two lump sum billings. MidAmerican then changed the way they billed IJUMP the franchise fees for schools beginning in July 2008, so IJUMP was then able to begin billing the franchise fees on a monthly basis as part of the regular invoices going forward. At some point during the 2007-08 fiscal year, it was determined that IJUMP should not go after collecting the old franchise fees from the individual districts, then subsequently wrote off the old unbilled receivables and passed through the fees going forward.

A Des Moines resident filed suit against the City of Des Moines in July 2004 claiming that the City didn't have authority to charge franchise fees, that it was an illegal fee. The case ultimately went to the Iowa Supreme Court which ruled that the Des Moines resident was correct and that the City was not free to charge a fee in any amount. The Iowa Supreme Court remanded the case back to the District Court for further proceedings and trial on the appropriate fee percentage. A ruling was entered by the Court on 8/18/2009 determining that the City of Des Moines violated the law by imposing what amounts to an illegal tax on the payers within the City of Des Moines. The Court ordered refunds for amounts collected in excess. The City has appealed the case. The last update I read was dated 9/30/2009. More information on the case can be found at [www.dsmfranchisefeesuit.com/narrative.html](http://www.dsmfranchisefeesuit.com/narrative.html).

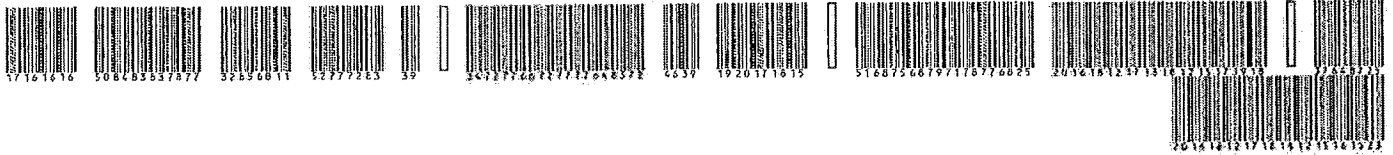
The appeals will likely drag on as this issue would be a significant cost to the City of Des Moines if ruled against them. If refunds are ever ultimately issued in the case, the franchise fees charged to IJUMP on behalf of Des Moines CSD between 2001 and June 30, 2007, should be refunded to IJUMP, Inc. since IJUMP never passed along those fees to the Des Moines CSD. Des Moines CSD's franchise fees paid by IJUMP but not collected between 2001 and June 30, 2007 are estimated at \$102,000. Any franchise fees refunded on behalf of Des Moines CSD between July 1, 2007 and the sale date to SES, should be refunded directly to Des Moines CSD as IJUMP was reimbursed and made whole by Des Moines CSD for those franchise fees. Any reimbursements after the sale date to SES would need determined as to whether they are owed to SES or Des Moines CSD. Since IJUMP, Inc. has since been dissolved, according to their bylaws any assets would go directly to IASB. Thus far, the case only involves the City of Des Moines and therefore the Des Moines CSD was the only IJUMP customer affected.

## **Origins of IJUMP**

With all the talk about Federal and State money lately, it's also important to note the origins of the IJUMP program. The IJUMP program was originally established in 1997 with a \$350,000 revolving loan fund from the Iowa Department of Natural Resources "for public schools in Iowa to provide, but not be limited to, temporary financing for energy studies and associated costs related to direct energy purchase infrastructure improvements." The contract was with IASB originally. IJUMP, Inc. was established in May 2001. The loan agreement was then transferred from IASB to IJUMP effective July 1, 2001. The \$350,000 loan was fully repaid to the DNR during the 2007-08 fiscal year.

## **Summary**

IJUMP was not "an investment that didn't pan out", it was one of the most successful ventures IASB has been involved in both for establishing a competitive environment for schools where none existed originally, providing good services to schools over those years, providing consolidated billing and payments to increase efficiencies in schools, and financially for the IASB enterprise as the program brought in approximately \$120,000 annually for fiscal years 2001-03 and \$220,000 annually for fiscal years 2003-08 to fund other IASB programs and services. The sale to Seminole Energy Services ensured a continued competitive environment in Iowa to keep cost competitive for schools, ensured the schools would continue to receive at least as good of a deal under SES and they would have under IJUMP, and eliminated all business risk to IASB. It is also a good example of a time where IASB no longer was needed for schools to get what they needed, so IASB exited the marketplace.



March 8, 2006

Mr. Jon Muller  
Iowa Association of School Boards  
700 Second Ave, Suite 100  
Des Moines, IA 50309-1731

Dear Mr. Muller,

Below are my findings from my audit and reconciliation of the IJUMP program for the school year July 2004 through June 2005.

The IJUMP program had a net loss on gas billings of approximately \$725,900. The sole reason for the net loss was due to the gas prices billed by WPS being too low compared with IJUMP's cost of gas.

The following specific findings explain the shortfall and planned program changes to prevent similar shortfalls in the future.

1. The monthly gas prices were selected based upon historic IJUMP program gas costs and designed to produce savings to IJUMP Participants when compared with the local utilities' gas costs. Although November and December 2004 prices were below NYMEX, the prices set for January through March of 2005 were \$0.66 - \$1.00 / Dth above NYMEX. Therefore, it was reasonable to expect that IJUMP costs would be adequately recovered.
2. Actual IJUMP gas costs were not properly tracked and reconciled on a timely basis, which would have alerted the program manager at WPS to the shortfall that was building. Since the shortfall was not recognized, prices were not increased appropriately to cover actual gas costs throughout the remainder of the heating season.
3. A significant portion of the shortfall - \$269,400 - was due to the "System Accounts", also referred to as "IJUMP Lite" accounts. These accounts were served and billed by the local utility - MidAmerican Energy - at its gas cost, but were then charged the IJUMP price. In particular, WPS attempted to set the gas prices for MidAm served Participants to account for a small expected shortfall due to the System Accounts. The actual shortfall due to these accounts was not adequately tracked. Gas prices for all MidAm served participants were increased for January, February, and March 2005 when it became apparent that the gas price selected at the start of the heating season was too low. However, the extent of the shortfall was not recognized during the heating season and prices were not increased sufficiently to cover the ongoing and increasing shortfall.

4. The entire shortfall IJUMP experienced is due to the pricing set by WPS. The LDC's managed the cash out according to their tariffs, and there will be no additional revenue coming from any of the utilities for the period in question.
5. WPS is taking the appropriate steps to change its process and pricing methodology in order to accomplish the following: (1) Track actual gas costs and revenue during the winter to allow for price adjustments where necessary; (2) Adjust pricing to create a more accurate pool price that lines up with LDC cash out procedures; and (3) Reduce accounts receivable by producing participant invoices on a more timely basis which will improve IJUMP program cash flow.
6. The volume of "System Accounts" have been reduced by 75% for the current year. Therefore, IJUMP will not face the level of shortfall risk as it had during the 2004-05 school year.
7. WPS will work with IJUMP to set pricing for February and March 2006 that will produce sufficient revenues to cover the prior year's shortfall, as well as to assure that we cover expected costs for the current year. Hedge gains of more than \$407,000 from the 2004-05 school year are expected to be used as well.
8. A final option is to re-calculate more appropriate gas prices for the 2004-05 school year and re-bill all accounts. However, based upon current gas pricing and utility gas costs, there appears to be sufficient margin to cover last year's shortfall during February and March 2006, as stated above.

Please don't hesitate to contact me if you have any questions or would like to discuss any aspect of this report.

Sincerely,

Steven L. Willins  
Energy Management Consultant  
WPS Energy Services, Inc.

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**MINUTES**  
**BOARD OF DIRECTORS**  
**IOWA JOINT UTILITY MANAGEMENT PROGRAM, INC.**  
**December 19, 2006**  
**Iowa Association of School Boards**  
**Des Moines, Iowa**

Board Members Present: Dick Vande Kieft, Chair, Margaret Borgen, Bob Olson, Ron Rice, Gary Sinclair, and Jim Spicer

Board member via telephone: Darcy Moeller.

IASB staff present: Jen Albers, Darlene Blair, Jon Muller, and David Stokes.

Guest present: Joe Desmond, Brooks Lodden P.C.

**I. Call to Order**

Chair Dick Vande Kieft called the meeting to order at 2:30 p.m.

**II. Roll Call**

Roll call was taken by Darlene Blair.

**III. Approval of the Agenda**

A motion was made by Jim Spicer and seconded by Darcy Moeller to approve the agenda as presented. The motion was unanimously approved.

**IV. Welcome new board member**

Ron Rice recognized new board member, Jim Spicer. All members and IASB staff introduced themselves.

**V. Appoint Vice Chair**

A motion was made by Darcy Moeller and seconded by Jim Spicer to appoint Margaret Borgen as Vice Chair. The motion was unanimously approved.

**VI. Old Business**

**A. Approve the minutes of the May 4, 2006 meeting**

A motion was made by Margaret Borgen and seconded by Darcy Moeller to approve the minutes of the May 4, 2006 meeting. The motion was unanimously approved.

**B. Update on IJUMP, Inc. Activities**

Jon Muller and David Stokes updated the board on the growth of IJUMP from 1998, with 151 meters, to present with 872 meters. David noted he has been visiting schools that are not presently enrolled in IJUMP plus state, county and municipal offices.

Jon Muller reviewed the budget projections noting that IJUMP does not have a budget per se. Jon shared that WPS will continue to do the gas nomination for IJUMP at a fee of \$24,000/year as billing will be brought in-house. He also shared WPS had a problem in the past in pricing gas correctly on statements. Any previous pricing shortfalls will be made up in the ordinary process for pricing gas in FY07.

## **VII. New Business**

Items E and F were discussed prior to the other new business items.

### **E. Receive FY06 Audit**

Joe Desmond, Brooks Lodden reviewed the audit noting IJUMP received a clean opinion.

A motion was made by Gary Sinclair and seconded by Bob Olson to accept the FY06 Audit. The motion was unanimously approved.

### **F. Approve Auditor's Engagement Letter for FY07**

Jen Albers shared this is year three of a three-year agreement with Brooks Lodden and noted their fee for the FY07 Audit will remain the same as last year, \$6,900.

A motion was made by Jim Spicer and seconded by Margaret Borgen to approve the Auditor's Engagement Letter for FY07. The motion was unanimously approved.

### **A. IJUMP and LGS Services Agreement and**

### **B. IJUMP and IASB Sponsorship Agreement**

Jon Muller shared these agreements separate the core mission services from the business services.

A motion was made by Jim Spicer and seconded by Bob Olson to approve the IJUMP and LGS Services Agreement and the IJUMP and IASB Sponsorship Agreement. The motion was unanimously approved.

### **C. Amendment to the Master Energy Swap Agreement**

Jon Muller noted IJUMP has been paying 2 cents/dekatherm to purchase the hedging instrument and paying back at 1 cent. With this new agreement IJUMP will purchase at 3.5 cents/dekatherm and pay back at a flat fee of \$125.00.

A motion was made by Gary Sinclair and seconded by Darcy Moeller to approve the Amendment to the Master Energy Swap Agreement. The motion was unanimously approved.

### **D. WPS Energy Services Agreement**

This agreement will set the fee IJUMP pays to WPS for nomination services at \$24,000 per year.

A motion was made by Margaret Borgen and seconded by Jim Spicer to approve the WPS Energy Services Agreement. The motion was unanimously approved.

### **G. Resolution for the Approval of the Loan Commitment Agreement with Bankers Trust for a Line of Credit not to exceed \$3,000,000.**

A motion was made by Jim Spicer and seconded by Bob Olson to approve the Resolution for the Approval of the Loan Commitment Agreement with Bankers Trust for a Line of Credit not to exceed \$3,000,000 and authorize Jon Muller and Jennifer Albers to draw on these funds. The motion was unanimously approved.

## **VIII. Other Business**

There was further discussion regarding past use of the IJUMP Line of Credit and our billing process.

**VI. Adjourn**

The meeting adjourned at 3:54 p.m.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ronald M. Rice".

Ronald M. Rice  
Secretary

**IJUMP BOARD OF DIRECTORS  
MINUTES  
September 19, 2008  
Iowa Association of School Boards  
Des Moines, Iowa**

Board Members: Margaret Borgen, Marcia DeZonia, Darcy Moeller, Bob Olson, Gary Sinclair, and Dick Vande Kieft

IASB Staff: Jen Albers, Darlene Blair, Jon Muller and LeGrande Smith

Guest: J. Campbell Helton, Attorney, Whitfield and Eddy, P.L.C.

**1. Call to Order**

Chair Dick Vande Kieft called the meeting to order at 9:08 a.m.

**2. Approval of the Agenda**

A motion was made by Marcia DeZonia and seconded by Bob Olson to approve the agenda as presented. The motion was unanimously approved.

**3. IJUMP Sale of Assets to Seminole Energy**

Jon reviewed information that was presented at the July 1 board meeting regarding the sale of IJUMP to Seminole Energy. Seminole Energy is currently not operating in Iowa but is very interested in the Iowa market. Jon noted that in the purchase agreement with Seminole they would be required to honor the terms of all existing school district agreements with IJUMP. Majority of the school district contracts are three year rolling contracts and are beginning year two (2).

Jon shared that IJUMP is projecting a \$700,000 negative fund balance prior to the sale. He said that during the 10 years IJUMP has been operating we have sold approximately \$170 million of gas service to Iowa schools and returned approximately \$2 million in sponsorship to IASB.

Jon noted that LGS will retain ownership of the IJUMP billing software and will continue to do the billing for Seminole Energy for a period of time to verify accuracy of their system.

There was discussion about the communication that will be sent to the school districts regarding the sale of the IJUMP. Jon shared a letter will be sent from the IASB Executive Director with a follow-up letter from SES. The letters will be reviewed by both parties prior to distribution. Seminole Energy will host a reception at the IASB convention in November and will also have an exhibitor booth. IASB staff will make personal visits to the larger IJUMP clients.

A question was raised as to whether the school districts could switch from Seminole to another gas provider. Jon noted the school districts would need to honor their current contract with IJUMP. These contracts range from one to three years.

There was discussion around the possibility of IASB, in the future, creating a new gas provider program. Jon noted contractually IASB/IJUMP cannot compete for three years but after that there is nothing to prohibit IASB from creating a new program.

A more detailed listing of discussion questions and answers is attached.

**a. Purchase Sale Agreement with SES**

A motion was made by Darcy Moeller and seconded by Bob Olson to approve the Purchase Sale Agreement with Seminole Energy Services. The motion was unanimously approved.

**b. Software Licensure Agreement with LGS**

Jon noted that IASB paid \$158,000 to build the IJUMP software billing system.

A motion was made by Marcia DeZonia and seconded by Margaret Borgen to approve the Software Licensure Agreement with LGS. The motion was unanimously approved.

**c. Termination Notice to Integrys Energy Services**

Jon noted this is an agreement with Integrys (WPS) who has been doing the nominating and balancing for IJUMP.

A motion was made by Bob Olson and seconded by Darcy Moeller to approve the Termination Notice to Integrys Energy Services. The motion was unanimously approved.

**d. Termination of Sponsorship Agreement with IASB**

Jon noted this termination will be effective October 1, 2008. Future sponsorship payments will come from Seminole Energy Services.

A motion was made by Gary Sinclair and seconded by Margaret Borgen to approve the Termination of Sponsorship Agreement with IASB. The motion was unanimously approved.

**e. Assignment of BP Gas Supply Agreement as Amended to Seminole Energy Services**

Jon noted that SES has a huge block of purchase with BP currently. SES will take the gas that IJUMP has already purchased through 2009.

A motion was made by Margaret Borgen and seconded by Bob Olson to approve the Assignment of BP Gas Supply Agreement as Amended to Seminole Energy Services. The motion was unanimously approved.

**f. Assignment of Integrys Master Energy SWAP Agreement as Amended to Seminole Energy Services**

Jon stated this will allow us to exchange variable rate gas cost for a fixed price. Everything will be transferred to SES; IJUMP will have no liabilities or assets.

A motion was made by Gary Sinclair and seconded by Marcia DeZonia to approve the Assignment of Integrys Master Energy SWAP Agreement as Amended to Seminole Energy Services. The motion was unanimously approved.

**g. Assignment of Affinity Agreements to Seminole Energy Services**

- 1. Associated Employers Agreement**
- 2. Agri-business Association of Iowa**

Jon shared that Associated Employers and Agri-business are like IASB. They provide gas service to their customers.

A motion was made by Darcy Moeller and seconded by Marcia DeZonia to approve the Assignment of Affinity Agreements to Seminole Energy Services (1)

Associated Employers Agreement; and 2) Agri-business Association of Iowa. The motion was unanimously approved.

**h. Resolution Authorizing Execution of Agreements**

Jon noted this document authorizes counsel to make any changes on the date of closing that might come up provided they do not put the program at risk.

A motion was made by Margaret Borgen and seconded by Marcia DeZonia to approve the Resolution Authorizing Execution of Agreements. The motion was unanimously approved.

**i. Communications Plan**

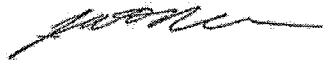
Gary Sinclair suggested Bob Olson communicate with the superintendents regarding the sale of IJUMP. Gary believes that someone who is well respected in the area of school finance will provide reassurance that this is a positive transition. Bob said he would like IASB and SES to review any communication that would be sent from him.

It was noted the IJUMP board will remain intact as there will be additional items that will need to be approved, such as the FY 08 and FY 09 audits.

**4. Adjourn**

The meeting adjourned at 10:26 a.m.

Respectfully submitted,



Jon Muller  
Secretary

## **Detailed Discussion Questions and Answers**

Bob Olson asked, with the volatility in the market and the way Seminole is set up; do they have potential liability with the way they are put together for Buffet to pick them up? Bob mentioned concern about limited competition if MidAmerican controls SES.

Jon Muller said Seminole is required for four years to treat schools the way we have – if they sell the requirement is assigned. The billing software is retained, and we can re-enter the market in four years if they are not doing what they should be doing or if there is not adequate competition and a functioning market.

Bob asked how IJUMP would it be treated by the Iowa Utility Board if we get back in the market in the future. Is it a problem exiting and then re-entering?

Jon said being certified a gas provider is easy. Pay license fee. Utilities Board told MidAmerican what to do and MidAmerican is now complying. Small volume market is now competitive. IJUMP could get back in. J. Helton said there is non solicitation/non competitive in contract – IJUMP/IASB cannot participate for three years. But after that, IJUMP could participate again.

Bob asked if schools have four year contracts.

Jon said there are 1 year, 2 year and 3 years. Most are 3 year contracts about to start year 2.

Margaret Borgen said if we create a new program if SES does not honor its agreement?

Jon said there are no service requirements beyond the contractual ones – if we compete we will forgo fees. But we are always free to do that, once 3 years is up.

Gary Sinclair said in four years we can request an audit – if they don't fulfill their obligations – we are not honor bound to fulfill our obligation of not starting a company.

LeGrande Smith said we are protected if they sell their company and assign agreements. To ensure we do not have to be affiliated with the buying entity, they would have to buy out the remainder of our 8 year ongoing sponsorship fee. Jon said we insisted that we not be put in a position where IASB's sponsorship is assignable, and SES agreed.

Gary asked when you provide information to schools – how easy would it be to provide their contract limit. Know how long they are committed. Doesn't IJUMP have contract limits? Jon said we need to think about how we might do that – might be better for IASB to do that well after the entire deal closes, when we are just representatives for the schools.

Gary said when you send the letter to schools, let them know how it will be done. How long SES is committed to operating the program like IJUMP is significant.

Jon said SES has to approve this letter. It will not affect anyone for at least 6 months. We could send a separate letter to remind them to check out their contracts. Perhaps a generic, "it's always a good idea to look at your energy agreements and see when they are up for review" might be better.

Marcia DeZonia said the importance of moving forward is: 1) situation in Iowa changed; 2) didn't have a choice but to change if we wanted schools to continue to receive a good service.

Dick Vande Kieft noted the risk of continuing the program – not just IJUMP but the total association.

Gary said the most critical piece of information - IJUMP went looking for buyers that would help schools. IJUMP started looking for better option.

Darcy Moeller asked is it as good an option or better option for the schools?

Jon said we think it is a better option – that schools will be better off under their new service provider.

Gary said this is not the mission of IASB, if we would have to expand into other non-school markets – going down that road could jeopardize other programs. Getting into businesses we shouldn't manage.

Margaret said we are helping to guarantee competition in the future.

Bob said the important point is timing – The choice is to either grow or get out. We got in to smooth out volatility of market. So many good things going on with this – IJUMP is not in position to grow this kind of business – doesn't fit core mission;

Gary said it was proactive of IJUMP to say this isn't what we should be doing – looking at alternatives makes sense.

Gary said a superintendent may ask where his school's share of the proceeds is, and asked if IASB would have to reduce staff to accommodate the change.

Jon noted we have already reduced one position through attrition, but it will not require layoffs. The amount of money left over with IJUMP after payable is satisfied and transition expenses are paid will be minimal, if anything at all. There will not likely be anything to distribute. If there is, then the bylaws require the money to be transferred to IASB, the controlling entity.

Darcy said they are getting their portion that over time they would have had to pay. With this, they won't have to pay additional cost to recover under-billings from prior periods.

Jon highlighted each document

Purchase sale agreement – page 9, Article 2, Section 2.4 – obligation should continue for 4 years – that should say 8. This is the main document that governs most of the transaction.

Dick asked about Article 6, and why it mentioned 4 years?

Jon said we don't have obligation beyond 4 years. Additionally, Article 9 refers to IJUMP or affiliated parties – that is IJUMP/IASB/LGS.

Gary said he was concerned that school districts committed to participating with IJUMP – we are selling the contract agreement between Dallas-Center Grimes/IJUMP to a third party – what is the appropriateness of selling contract to third party without our approval.

J. said we are giving responsibility to someone else – just being assigned to third party to fulfill obligations. The call center, terms and conditions, and all requirements are the same. There is no obligation for district to continue beyond current term.

Gary said why would Seminole want to do this? – Why would they want a business that has negative assets?

Jon said they are getting the contracts – earning power \$20 per meter per month plus 8 or 15 cents per MMBtu. They are buying the right to earn profit on a revenue stream, which they can service more efficiently than we can.

J. said they are getting client list and profit stream.

Bob said it positions them to expand, which we couldn't do.

### **Communication Plan**

Gary said client base is superintendents – they may need reassurance from someone that understands good school finance – someone well respected on school finance.

Gary said we need some way to get the level of trust to superintendents that you wouldn't get from just anyone.

Jon said there is a letter that will go out – there will be follow-up and meetings to learn about this.

Darcy said the letter that goes out should include names of IJUMP board members so they can call a board member.

LeGrande said we should have talking points for board members.

Bob said there should be a spot on the website with Q & A.

Dick asked if the IJUMP board will remain for a period of time.

Jon said we will have some things to approve, such as the audit for FY 08 also FY 09. At some point the board will need to evaluate whether to dissolve or find another purpose.

## LJUMP Franchise Fees

	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	TOTAL
Algona	-	-	-	4,749.19	1,873.56	-	6,622.76
Sioux City	9,631.87	11,916.25	7,915.85	4,191.70	4,645.85	2,655.10	40,956.61
Northwest AEA	230.45	214.80	27.87	171.77	-	-	644.89
AIB	2,376.19	2,337.38	188.35	442.54	406.01	157.05	5,907.52
Grand View	4,267.80	3,140.61	142.16	768.85	887.46	313.67	9,520.56
DMACC	-	522.79	-	-	-	-	522.79
Des Moines	52,184.00	44,968.99	4,483.21	182.76	38.18	15.82	101,872.95
SE Polk	685.59	380.93	-	-	-	-	1,066.52
Rock Valley	2,111.50	2,789.78	2,018.18	111.32	-	-	7,030.78
TOTALS	71,487.40	66,271.52	14,775.62	10,618.14	7,851.06	3,141.64	174,145.39